

**REPORT OF THE AUDIT OF THE
FORMER BOYLE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER BOYLE COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the former Boyle County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$27,491 from the prior year, resulting in excess fees of \$76,878 as of December 31, 2009. Revenues increased by \$74,914 from the prior year and expenditures increased by \$102,405.

Report Comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold McKinney, Boyle County Judge/Executive
The Honorable LeeRoy Hardin, Former Boyle County Sheriff
Members of the Boyle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Boyle County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2010 on our consideration of the Boyle County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



The Honorable Harold McKinney, Boyle County Judge/Executive
The Honorable LeeRoy Hardin, Former Boyle County Sheriff
Members of the Boyle County Fiscal Court

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Boyle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 30, 2010

BOYLE COUNTY
LEEROY HARDIN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State - Kentucky Law Enforcement Foundation Program Fund		\$	28,478
State Fees For Services:			
Waiting on Court	\$	44,283	
Convey Convicts		612	
Mileage Fees/KCPC		1,425	
Sheriff Security Service		<u>20,344</u>	66,664
Circuit Court Clerk			6,426
Fiscal Court			638
County Clerk - Delinquent Taxes			29,228
Commission On Taxes Collected			452,878
Fees Collected For Services:			
Arrest Fees		797	
Auto Inspections		4,476	
Accident/Police Reports		253	
Serving Papers		50,275	
CCDW		5,630	
Executions		123	
Fees Collected for Fiscal Court		12,680	
Telecommunications		4,234	
Advertising Fees		110	
Fingerprint		885	
Miscellaneous		178	
Mileage Fees		13,231	
Add-on Fees		<u>13,360</u>	106,232

The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY
 LEEROY HARDIN, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Revenues (Continued)

Other:

Reimbursements	\$	12,559
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Interest Earned		14,817
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Borrowed Money:

State Advancement		233,550
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Total Revenues		951,470
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Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputy's Gross Salaries	\$	305,413
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Overtime Gross Salaries		81,782
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Bailiff Salaries		60,483
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Bailiff Transport Pay		8,820
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KLEFPF Pay		24,767
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KLEFPF Overtime		7,082
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KLEFPF Retirement		5,177
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Contracted Services-

Advertising		158
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Materials and Supplies-

Office Materials and Supplies		18,335
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Other Charges-

Conventions and Travel		567
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Sheriff's Camp		226
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Postage		2,712
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CCDW		1,025
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Training Expense		2,027
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Transport Prisoners		2,517
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Miscellaneous		5,334
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Capital Outlay-

Office Equipment		4,460
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Capital Expenditures		12,944	\$	543,829
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The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY
 LEEROY HARDIN, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	233,550	
Fiscal Court Fees/Reimbursement		<u>14,304</u>	<u>\$ 247,854</u>

Total Expenditures			<u>\$ 791,683</u>
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Net Revenues			159,787
Less: Statutory Maximum			<u>79,381</u>

Excess Fees			80,406
Less: Training Incentive Benefit			<u>3,528</u>

Excess Fees Due County for 2009			76,878
Payments to Fiscal Court -March 23, 2010			<u>76,878</u>

Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>
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The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent for the first six months and 32.97 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Boyle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Boyle County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grants

The former Sheriff's Office received a grant from the Kentucky Department of Homeland Security on September 15, 2009, to purchase body armor. The total amount of the grant was \$6,048 and was deposited into the 2009 Fee Account. The purchase of the body armor was made on October 15, 2009. All of the funds were spent, and the grant had a zero balance as of December 31, 2009.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold McKinney, Boyle County Judge/Executive
The Honorable LeeRoy Hardin, Former Boyle County Sheriff
Members of the Boyle County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Boyle County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated June 30, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Boyle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Boyle County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comment and recommendation.

The former Boyle County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Boyle County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 30, 2010

COMMENT AND RECOMMENDATION

BOYLE COUNTY
LEEROY HARDIN, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During our review of controls over receipts and disbursements, we noted that the former Sheriff's office lacked adequate segregation of duties because there were no reviews performed on financial information the bookkeeper managed. The bookkeeper prepared the daily checkout sheets, deposit tickets, disbursement checks, bank reconciliations and quarterly reports. The bookkeeper also delivered all deposits to the bank. In an effort to decrease the risk of misappropriation or financial statement misstatement, the former Sheriff should have segregated some of these duties among different employees or implemented some compensating controls to help offset this internal control weakness. Some examples of compensating controls are as follows:

- Former Sheriff could have requested an office clerk perform the bank reconciliations and someone else review.
- Former Sheriff could have documented a periodic review of the checkout sheets and deposit tickets.
- Former Sheriff could have documented a monthly review of the bank reconciliations.
- Former Sheriff could have documented random cash counts on the deposit tickets.
- Former Sheriff could have documented the review of the quarterly reports.

Sheriff's Response: The bookkeeper is not on signature card @ the bank. Outgoing checks are signed by the Sheriff. Deposits are taken to the bank by the Sheriff or Chief Deputy, and initial. The Sheriff also reviews the A-28 and quarterly reports.

Auditor's Reply: During the audit, the auditor was told that many reviews were in place. However, the auditor determined that few reviews were actually being performed and/or documented as being performed.

